A large, thin green circle that frames the central text.

# The outlook for retail sales

Federation of Tax Administrators

October 17, 2016

Danny Bachman, Deloitte Services LP

# **The US forecast: Where's the party?**

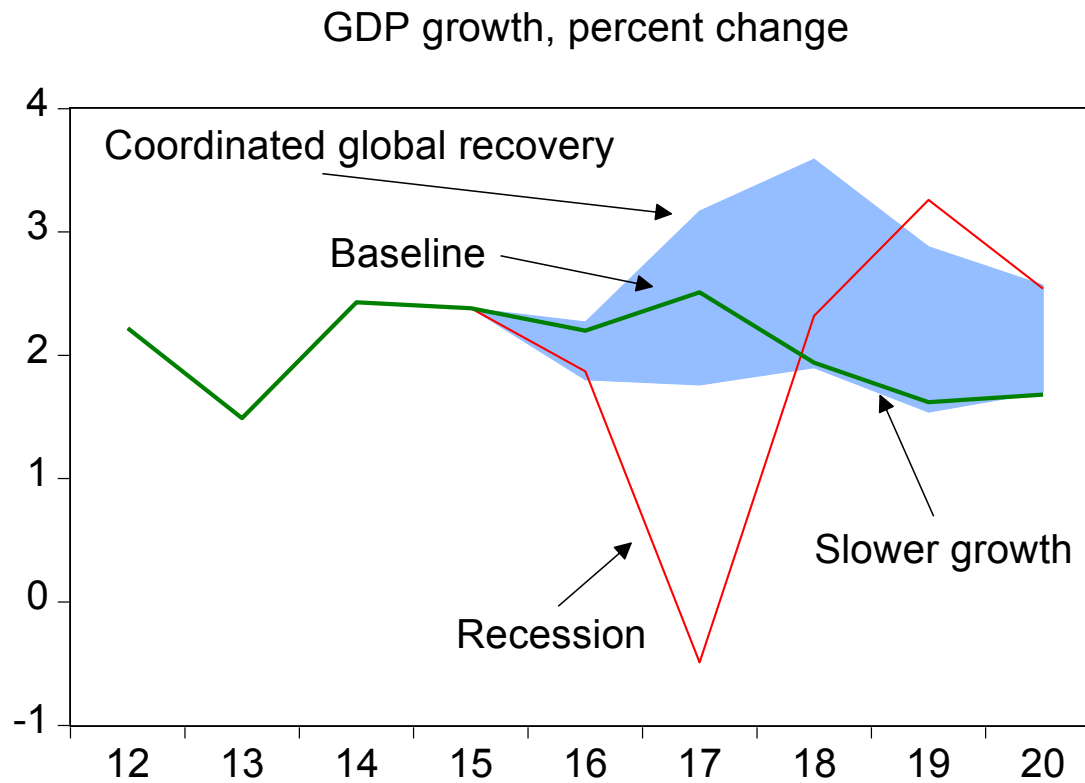
# William McChesney Martin, Fed Chairman, 1950-1971

“The Fed’s job is to take away the punch bowl just as the party gets going”



But somebody forgot to spike the punch.

# The key to understanding forecasts is thinking in probabilities.



Source: Deloitte/Oxford Economics

## Four alternatives

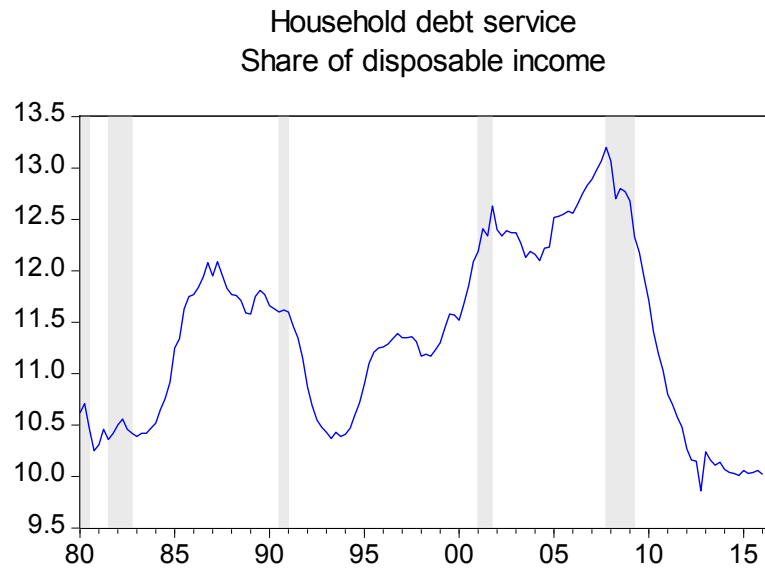
- 1. The baseline:** Growth will remain at the 2.5% level before slowing to below 2.0% by 2018. 55%
- 2. Slower growth:** Headwinds start pushing unemployment up. Growth remains below 2.0% 25%
- 3. Recession:** Chance of a financial shock in Europe or China. How do we know banks aren't exposed to risk? How do they know? 5%
- 4. Coordinated global boom:** Europe and China are on their way to fixing their problems. So is the U.S. 15%



# Consumer fundamentals— still going strong

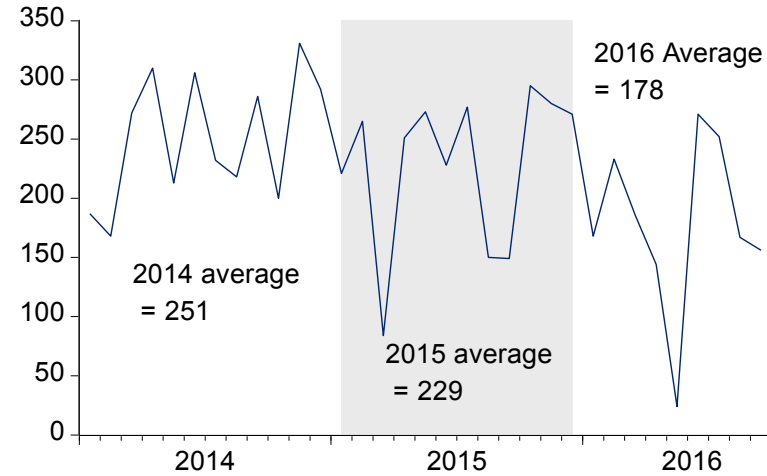
# Households are in better shape than they've been in a long time.

The household debt burden is at its lowest point ever.

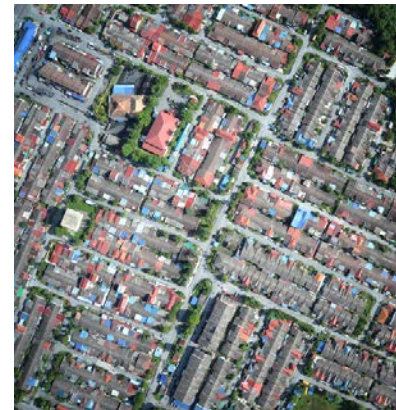


Source: Federal Reserve/Haver Analytics

Change in establishment employment  
Thousands of jobs

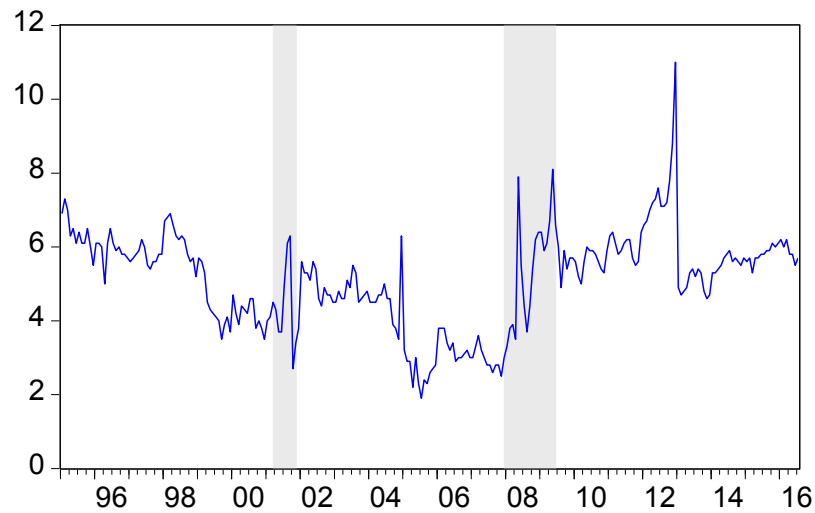


Source: BLS/Haver Analytics



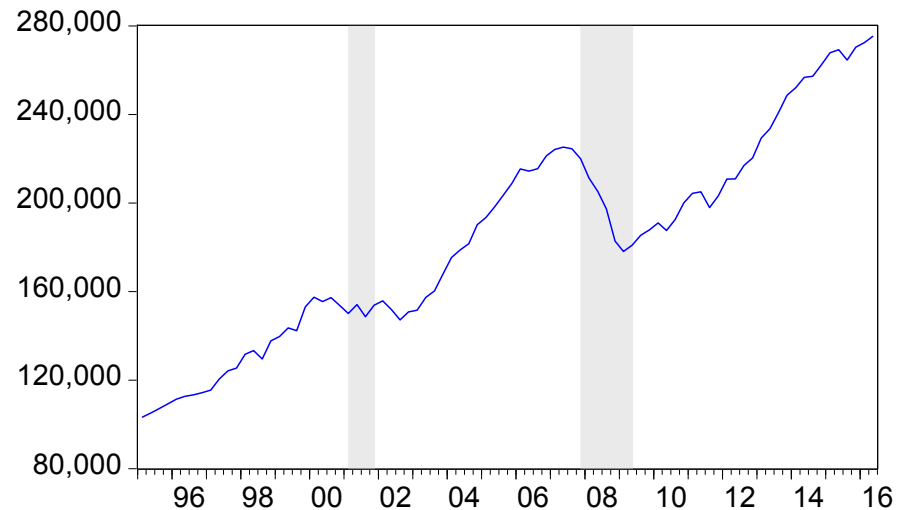
# Households are saving more, and aggregate assets are growing.

Personal saving rate  
Percent



Source: BEA/Haver Analytics

Household net worth  
US Dollars per person



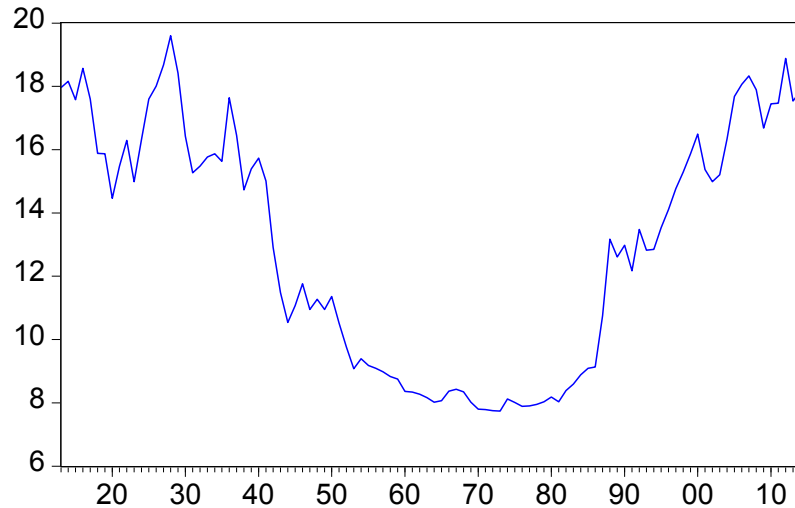
Source: Federal Reserve and Census/Haver Analytics



# Inequality remains a problem.

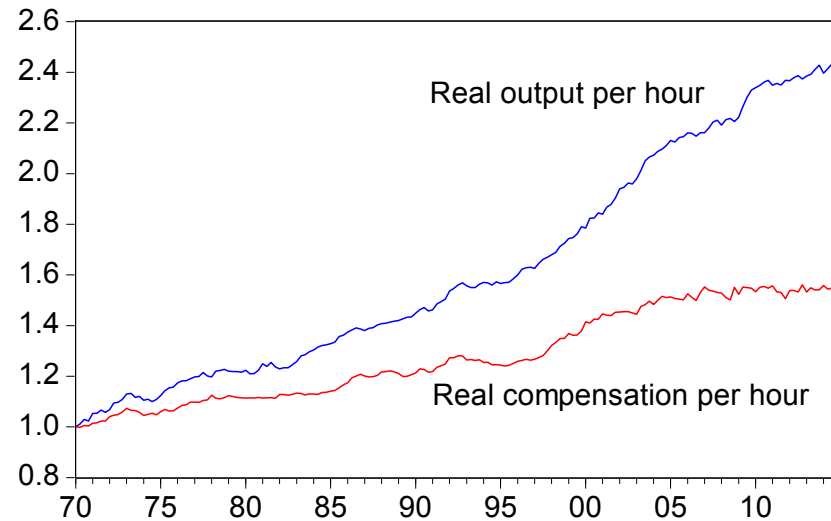


Share of total income earned by people in the top 1% of the income distribution



Source: The world wealth and income database

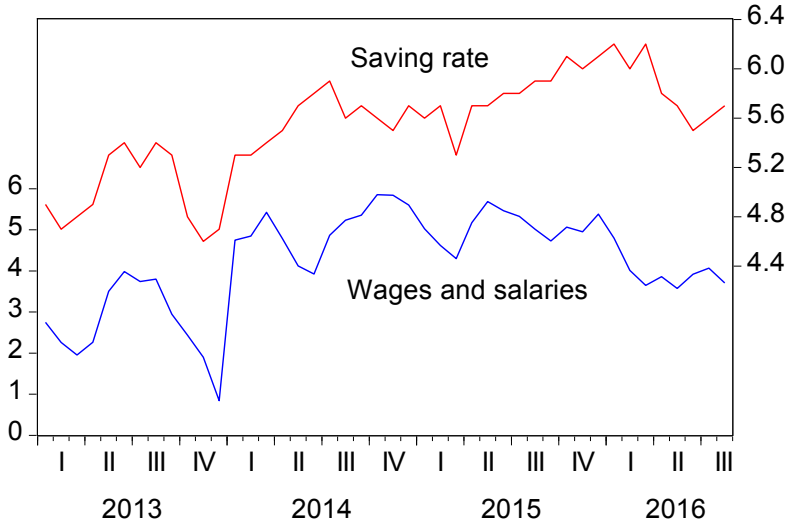
Productivity and compensation  
1970Q1 = 1



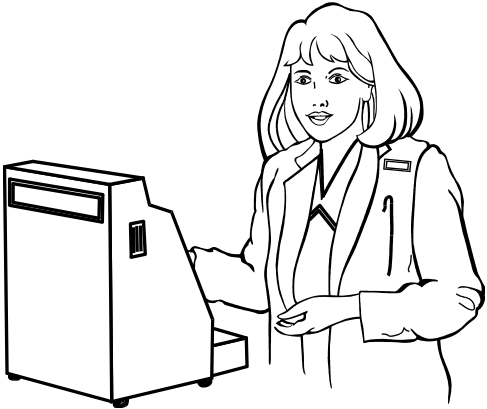
Source: BLS/Haver Analytics

# Near term indicators look positive.

Wage growth and saving rate  
Year ago percent change and percent of disposable income

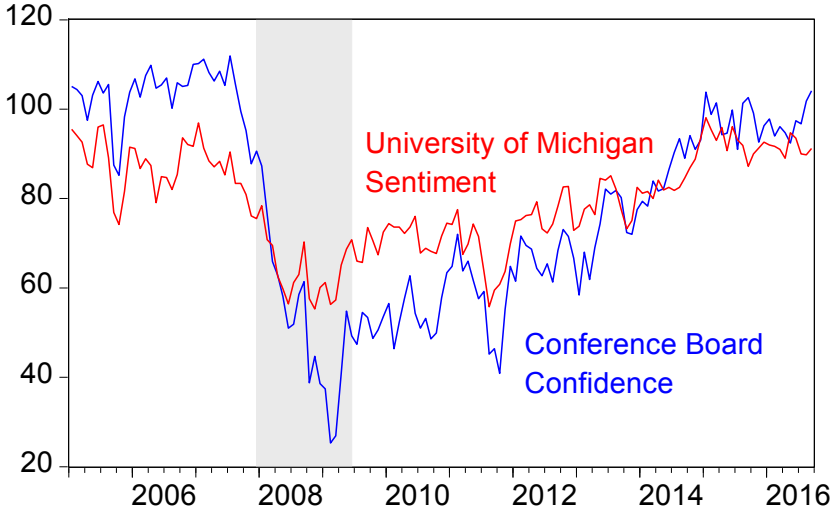


Source: BEA/haver Analytics



Consumers have plenty of savings, wages are growing—and confidence is high.

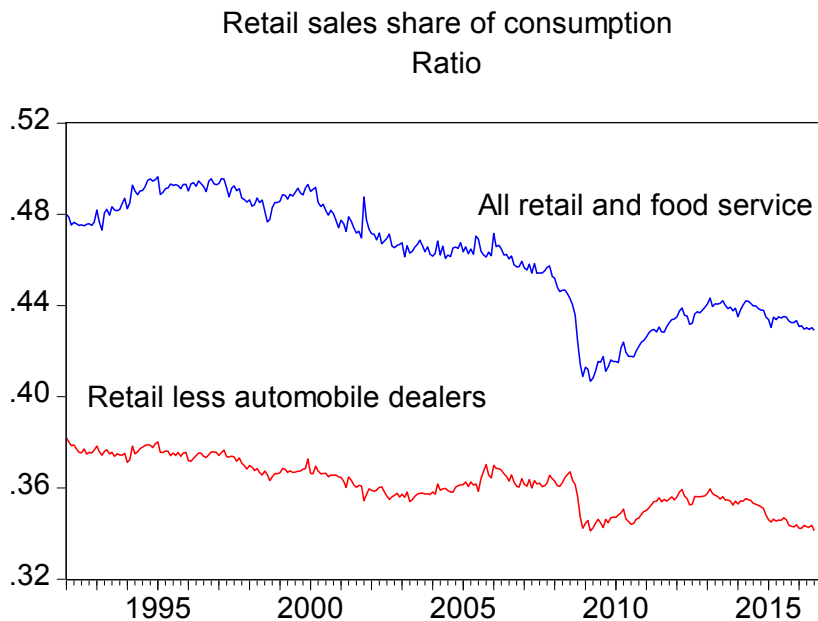
Consumer confidence and sentiment indexes  
Sentiment, 1966Q1=100; Confidence, 1985=100



Source: Conference Board and University of Michigan/Haver Analytics

# Trends in retailing

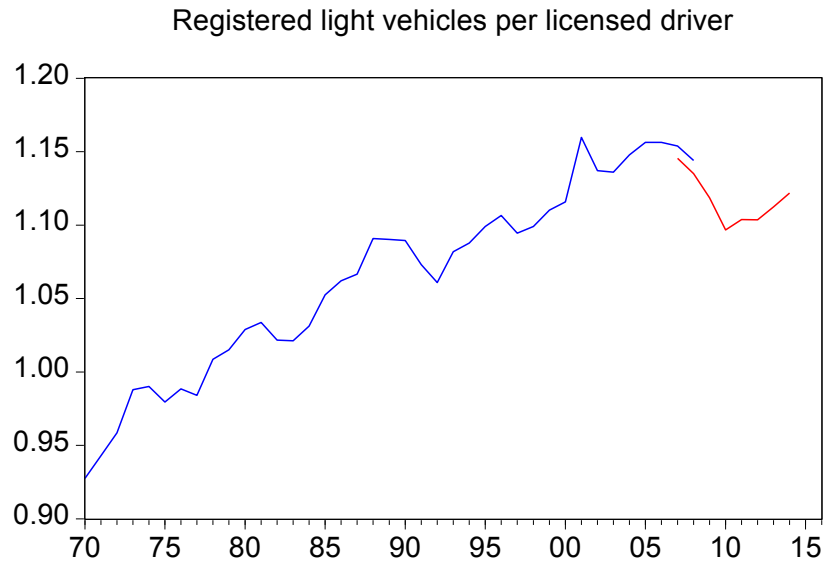
# Retail sales are growing more slowly than total consumption



Source: Census and BEA/Haver Analytics

Part of the decline is because people are putting a smaller share of their spending budget into automobiles.

# The declining importance of autos.

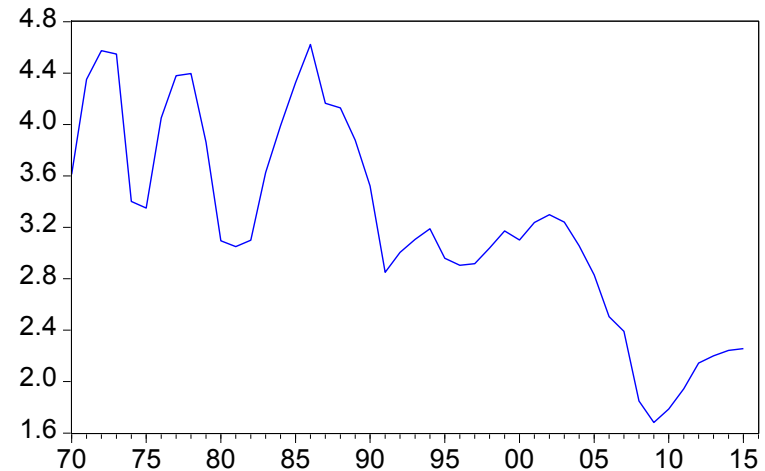


Source: Federal Highway Administration/Haver Analytics

Auto sales look like a declining industry— even before new mobility methods.



Share of consumer spending on new motor vehicles  
Percent

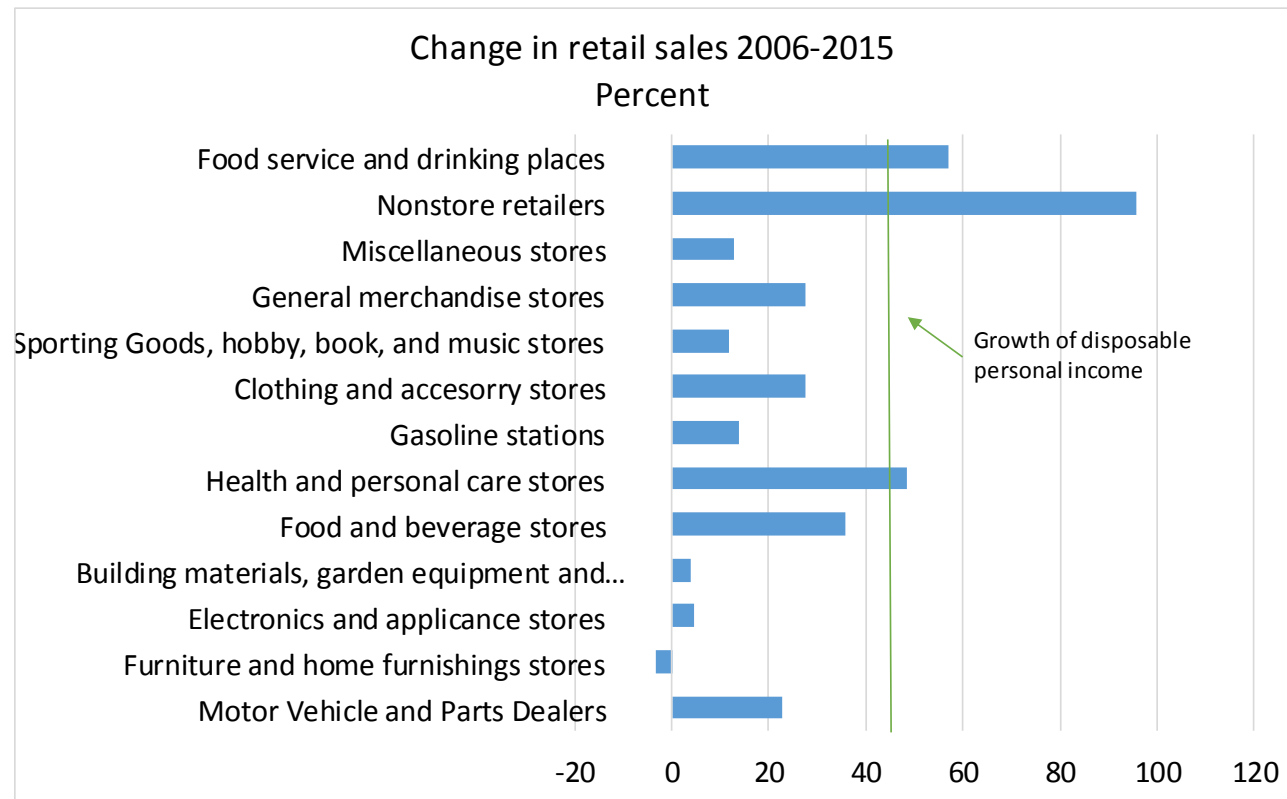


Source: BEA/Haver Analytics

# Most store types are losing share of disposable income.

## The big winners:

- food service and drinking places
- nonstore retailers
- health and personal care.



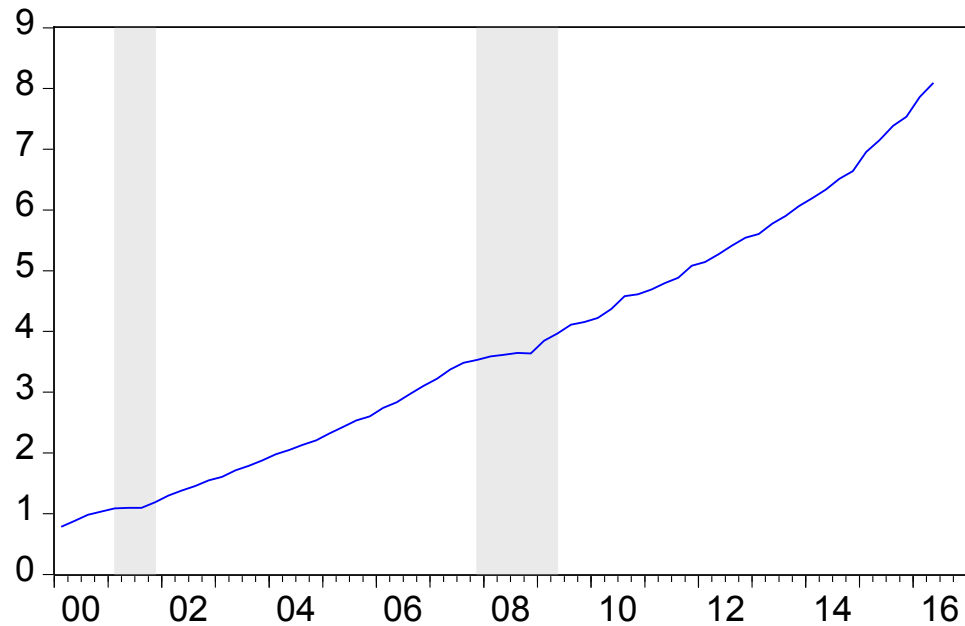
# The top products sold by nonstore retailers (2012 Economic Census).

1. Drugs, health, beauty aides (27% of sales)
2. New and used computers (9%)
3. Household fuels, etc. (8%)
4. Women's, juniors, and misses wear (5%)
5. Groceries and other food (4%)



# Electronic sales are growing— including sales through traditional retailers.

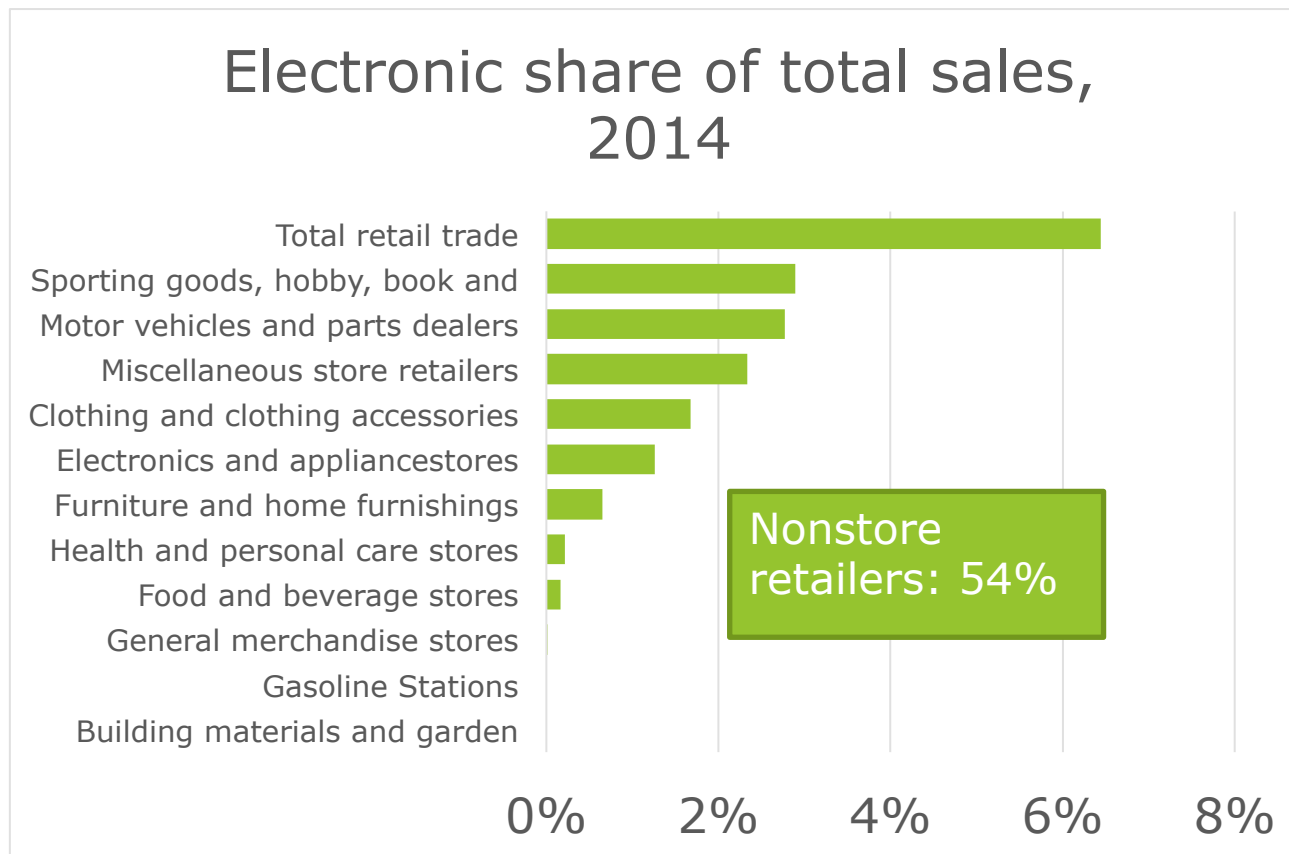
E-commerce share of total retail sales  
Percent



Source: Census/Haver Analytics

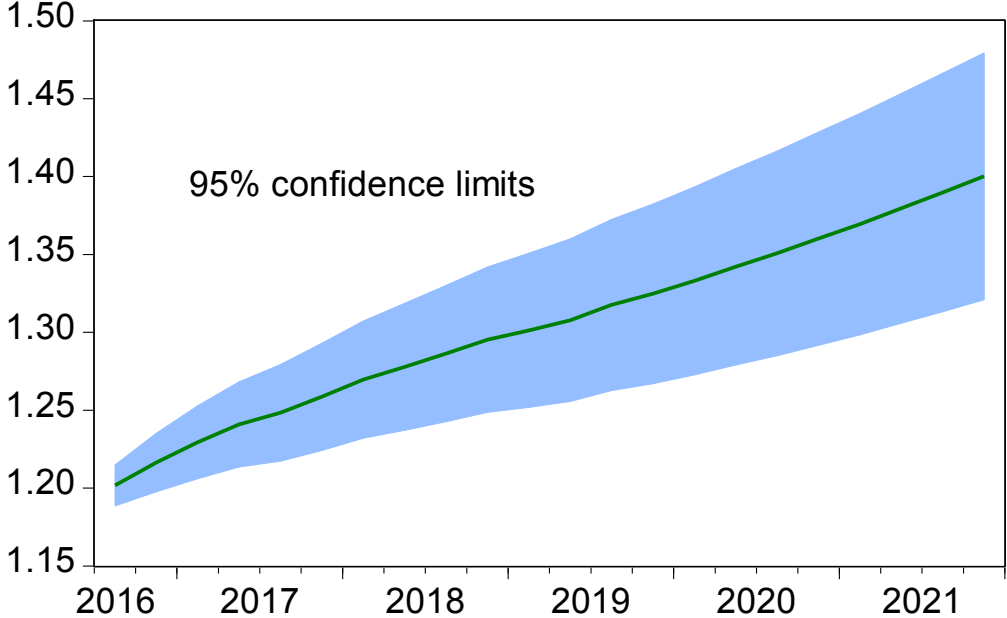


# Traditional bricks and mortar companies are only beginning the move to e-commerce.



# Forecast for total retail sales.

Retail sales forecast  
USD trillions, quarterly rate



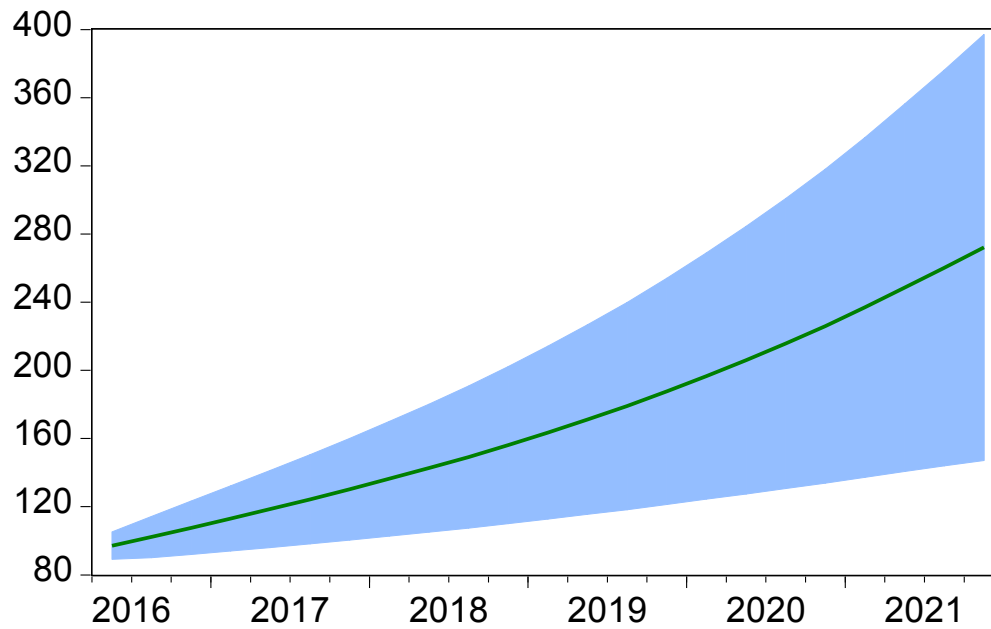
Source: Deloitte calculations

Average annual growth rate  
2016q2-2021q4



# Forecast for E-commerce retail sales.

Retail E-commerce sales forecast  
USD billions, quarterly rate



Source: Deloitte calculations

Average  
annual  
growth rate  
of 20%.

# Slow growth in traditional retail sales.

| Metric                       | Average annual growth rate |
|------------------------------|----------------------------|
| Disposable Personal Income   | 3.7%                       |
| Retail sales                 | 3.0%                       |
| E-commerce sales             | 20.5%                      |
| Retail sales less e-commerce | 0.6%                       |

Implies electronic sales will grow to 19% of total retail sales by 2021.

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